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Agenda Item 6a

December 13, 2011

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. **SUBJECT:** Financial Office Initiative Update
- II. **PROGRAM:** Administration
- III. **RECOMMENDATION:** Information Only
- IV. **ANALYSIS:**

The purpose of this agenda item is to provide an overview of current activities and process improvement efforts collaboratively addressed by the Financial Office, Investment Office and Actuarial Office.

The three Offices are working to refine and expand functions and processes that will benefit the organization by:

- Creating a higher level of financial transparency
- Improving the precision of our enterprise cash management process to ensure CalPERS financial stability
- Creating a timely and accurate monthly close process to improve our internal and external financial reporting; and
- Improving our investment reconciliation process and expense reporting to fully understand the total cost of doing business

Background

The Organizational Structure and Processes Initiative identified the need for and established the Chief Financial Officer and Financial Office, comprised of the Fiscal Services Division and the Office of Enterprise Risk Management. The Financial Office Initiative is working to implement new functions to fully develop the Financial Office.

The Financial Office Initiative identified cash management, monthly close, investment reconciliation, and financial reporting as key areas to develop or improve. These key areas have been organized and managed by the initiative team. The initiative's governing steering committees are comprised of Financial Office, Investment Office, and Actuarial Office leadership.

Collaboration of Improvement Efforts

A Steering Committee was created to ensure collaboration and coordination between all three Offices and various projects. The composition of the Steering Committee consists of:

Financial Office

- Acting Chief Financial Officer
- Chief Risk Officer
- Fiscal Services Division, Acting Division Chief

Investment Office

- Chief Operating Investment Officer
- Investment Operations, Performance and Technology, Chief

Actuarial Office

- Chief Actuary
- Deputy Chief Actuary

Mutual priorities for each Office are aligned to ensure maximum benefit is brought to the Enterprise. These mutual priorities are addressed through three Financial Office Initiatives:

1. Improved Enterprise cash management will enhance short-term and medium-term forecasting. These processes will include implementation of management reports to monitor the accuracy of the forecasts.
2. A monthly close process will be developed in accordance with all applicable accounting standards and requirements. This process will include production of monthly reconciled balance sheet and income statements that fully support financial, investment, and actuarial decision making and reporting.
3. Improved investment reconciliation processes that meet the needs of the Investment, Actuarial and Financial Offices. These improved processes are part of a comprehensive internal control framework that provides assurance of CalPERS overall financial position.

Enhanced financial and management reporting is built into these initiatives as part of developing an improved inventory of financial management reporting and forecasting abilities to empower CalPERS decision makers with high-quality, timely financial information to be utilized as a vital component for reaching informed decisions.

High Level Timeline

The high level timeline for the Financial Office Initiative is included in the last page of the attached presentation (Attachment A).

V. STRATEGIC PLAN:

This agenda item supports:

- Strategic Plan Goal III – Sustain a high performance work culture utilizing staff development, technology, and innovative leadership and management strategies.
- Strategic Plan Goal VI – Administer pension benefit services in a customer oriented and cost effective manner.

VI. RESULTS/COSTS:

N/A

RUSSELL G. FONG
Acting Chief Financial Officer

Attachment